



# **FINANCIAL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

### **INDEPENDENT AUDITOR'S REPORT**

Governor John Hoeven  
The Legislative Assembly  
Steve Cochrane, Executive Director  
State Investment Board  
Teachers' Fund for Retirement Board  
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the year ended June 30, 2008. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of RIO are intended to present the financial position, the changes in financial position and plan net assets of only that portion of the fiduciary funds of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2008, and the changes in its financial position and plan net assets, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarial accrued liability is approximately \$421 million at June 30, 2008. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates will amortize the unfunded actuarial accrued liability over 57 years, based on the current actuarial assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of RIO as of June 30, 2008, and the respective changes in financial position, plan net assets where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2008, and the results of operations of such funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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**RSM McGladrey Network**  
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information shown on page 47 is presented for purposes of additional analysis and are not a required part of the financial statements. The required supplementary information and supporting schedules are the responsibility of RIO's management. The Schedules of Funding Progress and Employer Contributions and the supporting schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 18 through 22 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise RIO's basic financial statements and on the combining and individual fund financial statements. The Supplementary Information shown on pages 52 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in our audit of the basic, combining and individual fund financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic, combining and individual fund financial statements taken as a whole.

We did not audit the data included in the introductory, investment, actuarial and statistical sections of this report, and accordingly, we do not express an opinion thereon.

A report in accordance with Government Auditing Standards, on the RIO's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants is issued under separate cover.

  
**BRADY, MARTZ & ASSOCIATES, P.C.**

October 13, 2008

BRADY, MARTZ & ASSOCIATES, P.C.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2008

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the basic financial statements, which follow this discussion.

### FINANCIAL HIGHLIGHTS

Total net assets decreased in the fiduciary funds by \$235 million or 4.2% due mostly to net losses in the investment markets.

Additions in the fiduciary funds for the year were actually negative due to the net decrease in fair value of investments. Net investment loss was \$248.7 million. Total contributions were \$70.6 million, an increase of 6.3% over 2007.

Deductions in the fiduciary fund increased over the prior year by \$9.0 million or 8.6%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees.

The ND Teachers' Fund for Retirement's (TFFR) funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2008, the funded ratio was approximately 81.9%.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO's activities (fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2008

### Fund Financial Statements

The fund financial statements provide detailed information about RIO's activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

RIO uses fiduciary funds as RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO's fiduciary activities are reported in a statement of net assets and a statement of changes in net assets.

### FINANCIAL ANALYSIS

RIO's fiduciary fund total assets as of June 30, 2008, were \$5.6 billion and were comprised mainly of investments and invested securities lending collateral. Total assets decreased over \$627 million or 10% from the prior year primarily due to losses in the financial markets during the fiscal year.

Total liabilities as of June 30, 2008 were \$201 million and were comprised mostly of securities lending collateral. Total liabilities decreased \$392 million or 66.1% from the prior year primarily due to a decrease in securities lending collateral at year-end.

RIO's fiduciary fund total net assets were \$5.4 billion at the close of fiscal year 2008.

#### ND Retirement and Investment Office Net Assets – Fiduciary Funds (In Millions)

	<u>2008</u>	<u>2007</u>	<u>Total % Change</u>
<b>Assets</b>			
Investments	\$ 5,384	\$ 5,619	-4.2%
Sec Lending Collateral	194	585	-66.9%
Receivables	30	32	-4.4%
Cash & Other	12	11	9.0%
<b>Total Assets</b>	<u>5,620</u>	<u>6,247</u>	-10.0%
<b>Liabilities</b>			
Accounts Payable	7	8	-10.8%
Sec Lending Collateral	194	585	-66.9%
<b>Total Liabilities</b>	<u>201</u>	<u>593</u>	-66.1%
<b>Total Net Assets</b>	<u>\$ 5,419</u>	<u>\$ 5,654</u>	-4.2%

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2008

ND Retirement and Investment Office  
Changes in Net Assets – Fiduciary Funds  
(In Millions)

	<u>2008</u>	<u>2007</u>	<u>Total % Change</u>
<b>Additions:</b>			
Contributions	\$ 70.60	\$ 66.40	6.3%
Investment Income	<u>(247.12)</u>	<u>832.31</u>	-129.7%
<b>Total Additions</b>	<u>(176.52)</u>	<u>898.71</u>	-119.6%
 <b>Deductions</b>	 113.93	 104.96	 8.5%
 <b>Net change from unit transactions</b>	 <u>55.41</u>	 <u>(63.90)</u>	 -186.7%
 <b>Total change in net assets</b>	 <u><u>\$ (235.04)</u></u>	 <u><u>\$ 729.85</u></u>	 -132.2%

### Statement of Changes in Net Assets – Additions

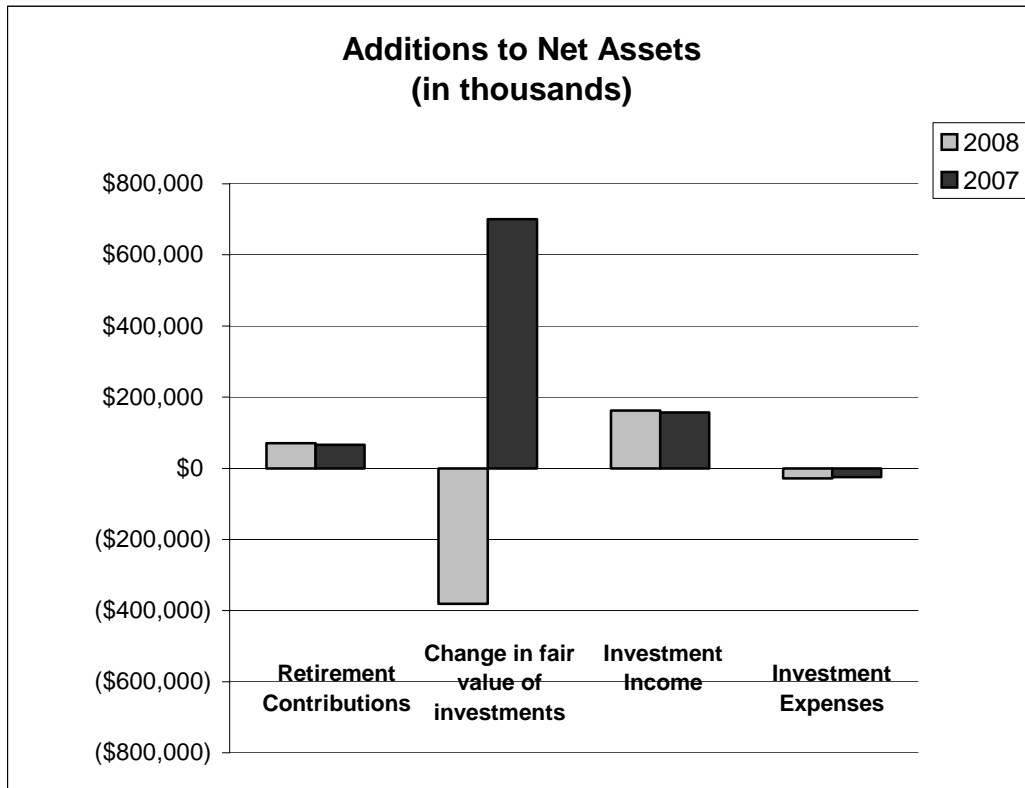
Contributions to the pension trust fund increased by \$4.2 million or 6.3% over the previous fiscal year. The net change in fair value of investments in the fiduciary funds was a decrease of \$380.9 million in fiscal year 2008 following a positive change of \$700.4 million the previous year.

Investment income, including net income from securities lending activities, increased by \$6.0 million from last year. Investment expenses increased by \$4.1 million or 16.7% mainly due to the timing of incentive-based fees related to certain timber investments. This fee will fluctuate over the life of the investment based on the continued performance of the manager.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2008



### Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by \$6.7 million or 6.7% during the fiscal year ended June 30, 2008. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary which the benefits are based upon.

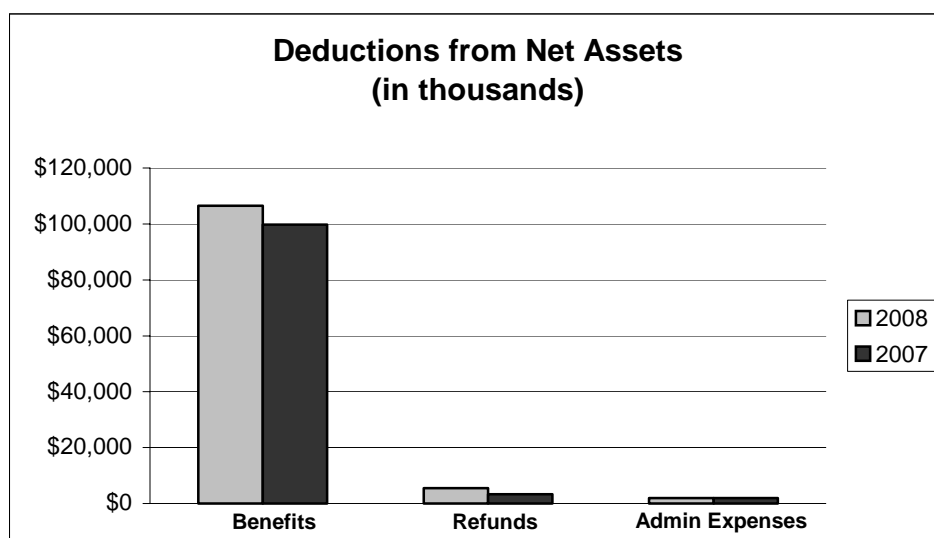
Refunds increased significantly in fiscal year 2008. The 2007 legislature approved a bill allowing employees of the Department of Career and Technical Education covered under TFFR to make an election to transfer to the Public Employees Retirement System (PERS). Approximately \$3.2 million in member account balances and/or actuarially determined values were transferred to PERS and these are shown as refunds on the financial statements. Total refunds for the year, including those transfers, were \$5.5 million versus \$3.3 million the previous fiscal year; a 65.2% increase.

Administrative expenses increased by just over \$80,000, or 4.3%, due mainly to legislatively approved salary increases for state employees.

## NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

### Management's Discussion and Analysis

June 30, 2008



### CONCLUSION

Fiscal year 2008 was highly influenced by tightening in the general credit market as well as declining economic conditions. This resulted in many global equities and non-governmental bonds losing value, as investors shunned assets presumed to have risk.

Within the SIB's investment program, the investment trust funds are invested within their policy guidelines and seek to add investment return to their expected benchmark return objectives over multi-year periods. As global economies and financial markets continue to adjust to changing conditions, the SIB remains vigilant to identify investment opportunities which will benefit the plans over the long term.

TFFR's funded ratio improved in 2008 due to the 5 year smoothing of asset gains and losses. However, long term projections show the plan's funding level is expected to decline should TFFR experience another year of investment losses. While 2007 legislation was passed to improve TFFR's long term financial status, additional statutory changes to enhance revenue may need to be considered in the future.

### CONTACTING RIO FINANCIAL MANAGEMENT

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.



**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

Statements of Net Assets  
Fiduciary Funds  
As of June 30, 2008 and 2007

	Pension Trust		Investment Trust	
	2008	2007	2008	2007
<b>Assets:</b>				
Investments, at fair value				
Equities	\$ -	\$ -	\$ 25,968,232	\$ 29,149,500
Equity pool	1,038,055,015	1,260,494,121	1,291,115,204	1,501,115,243
Fixed income	-	-	13,658,848	15,383,953
Fixed income pool	459,221,747	429,624,787	1,837,537,823	1,707,756,245
Real estate pool	218,557,672	212,437,075	214,544,096	205,201,801
Alternative Investments	101,316,753	87,610,571	101,957,749	85,898,100
Cash and cash pool	4,421,123	16,588,981	77,722,742	68,344,985
Total investments	<u>1,821,572,310</u>	<u>2,006,755,535</u>	<u>3,562,504,694</u>	<u>3,612,849,827</u>
Invested securities lending collateral	21,349,349	143,933,101	172,541,068	441,048,728
Receivables:				
Investment income	7,971,796	8,366,495	14,278,826	15,301,708
Contributions	8,065,995	8,058,323	-	-
Miscellaneous	5,361	3,064	5,102	4,011
Total receivables	<u>16,043,152</u>	<u>16,427,882</u>	<u>14,283,928</u>	<u>15,305,719</u>
Due from other state agency	38	112	9	23
Cash and cash equivalents	11,156,236	9,950,883	80,255	81,972
Equipment & Software (net of depr)	555,989	789,382	-	-
Total assets	<u>1,870,677,074</u>	<u>2,177,856,895</u>	<u>3,749,409,954</u>	<u>4,069,286,269</u>
<b>Liabilities:</b>				
Accounts payable	58,308	48,835	21,804	16,676
Investment expenses payable	2,634,849	3,603,855	4,138,715	4,109,302
Securities lending collateral	21,349,349	143,933,101	172,541,068	441,048,728
Accrued expenses	514,856	483,601	36,114	36,231
Capital lease payable	-	1,210	-	-
Miscellaneous payable	-	-	7,896	6,341
Due to other state agencies	6,301	8,881	729	1,258
Total liabilities	<u>24,563,663</u>	<u>148,079,483</u>	<u>176,746,326</u>	<u>445,218,536</u>
<b>Net assets:</b>				
Held in trust for pension benefits (see Schedule of Funding Progress on page 47)	1,846,113,411	2,029,777,412	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,002,929,586	2,104,537,811
Insurance pool	-	-	1,529,753,733	1,474,613,291
Held in trust for individual investment account	-	-	39,980,309	44,916,631
Total net assets	<u>\$ 1,846,113,411</u>	<u>\$ 2,029,777,412</u>	<u>\$ 3,572,663,628</u>	<u>\$ 3,624,067,733</u>
Each participant unit is valued at \$1.00				
Participant units outstanding			3,572,663,628	3,624,067,733

The accompanying notes are an integral part of this financial statement.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## Statements of Changes in Net Assets

## Fiduciary Funds

For the Years Ended June 30, 2008 and 2007

	Pension Trust		Investment Trust	
	2008	2007	2008	2007
Additions:				
Contributions:				
Employer contributions	\$ 33,683,550	\$ 31,865,466	\$ -	\$ -
Member contributions	33,237,677	31,865,772	-	-
Purchased service credit	3,636,528	2,629,006	-	-
Interest and penalties	15,634	1,855	-	-
Total contributions	70,573,389	66,362,099	-	-
Investment income:				
Net change in fair value of investments	(178,531,370)	308,580,419	(202,384,896)	391,832,839
Interest, dividends and other income	48,889,586	48,309,521	112,082,263	107,039,898
	(129,641,784)	356,889,940	(90,302,633)	498,872,737
Less investment expenses	11,359,487	10,547,809	17,388,018	14,080,766
Net investment income	(141,001,271)	346,342,131	(107,690,651)	484,791,971
Securities lending activity:				
Securities lending income	2,918,949	7,254,776	12,029,518	24,706,273
Less securities lending expenses	2,558,737	6,830,921	10,816,998	23,953,319
Net securities lending income	360,212	423,855	1,212,520	752,954
Total additions	(70,067,670)	413,128,085	(106,478,131)	485,544,925
Deductions:				
Benefits paid to participants	105,764,195	98,784,161	-	-
Partial lump-sum distributions	692,139	953,744	-	-
Refunds	5,500,476	3,328,931	-	-
Administrative charges	1,639,521	1,592,060	333,264	300,296
Total deductions	113,596,331	104,658,896	333,264	300,296
Net change in net assets resulting from operations	(183,664,001)	308,469,189	(106,811,395)	485,244,629
Unit transactions at net asset value of \$1.00 per unit:				
Purchase of units	-	-	316,098,641	140,877,109
Redemption of units	-	-	(260,691,351)	(204,776,903)
Net change in assets and units resulting from unit transactions	-	-	55,407,290	(63,899,794)
Total change in net assets	(183,664,001)	308,469,189	(51,404,105)	421,344,835
Net assets:				
Beginning of year	2,029,777,412	1,721,308,223	3,624,067,733	3,202,722,898
End of Year	\$ 1,846,113,411	\$ 2,029,777,412	\$ 3,572,663,628	\$ 3,624,067,733

The accompanying notes are an integral part of this financial statement.

# **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## **Notes to Combined Financial Statements**

**June 30, 2008**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A) Reporting Entity**

The North Dakota Retirement and Investment Office (RIO) is charged with providing and coordinating the administrative activities of the Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Comprehensive Annual Financial Report.

For financial reporting purposes, RIO has included all funds, and has considered all potential component units for which RIO is financially accountable, and other organizations for which the nature and significance of their relationship with RIO are such that exclusion would cause RIO's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of RIO to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on RIO.

Based upon these criteria, there are no component units to be included within RIO as a reporting entity and RIO is part of the State of North Dakota as a reporting entity.

#### **B) Fund Financial Statement**

All activities of RIO are pension and investment trust funds and are shown in the fiduciary fund financial statements.

#### **C) Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of RIO are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Fiduciary Fund**

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account.

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements**

**June 30, 2008**

#### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

##### **Fiduciary Fund - Continued**

The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, and Bismarck City Employees and Police, and City of Fargo pension plans in the pension pool. The investments of Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery (transferred out in fiscal year 2008), North Dakota Association of Counties Fund, North Dakota Association of Counties Program Savings Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, and Budget Stabilization Fund are managed in the insurance pool.

PERS Retiree Health investments are managed by SIB in an individual investment account. RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. Those pool participants that are required to participate according to statute are: Public Employees Retirement System, Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery (transferred out in fiscal year 2008), Risk Management, Risk Management Workers Comp, Cultural Endowment Fund and Budget Stabilization Fund.

RIO follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the NDCC.

##### **D) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### D) Use of Estimates – Continued

Actual results could differ from those estimates. RIO utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

#### E) Budgetary Process

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO's budget through passage of a specific appropriation bill. The State of North Dakota's budget is prepared principally on a modified accrual basis. The Governor has line item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items, however RIO has specific authority as a special fund to transfer between the contingency line item and other line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level. RIO does not formally budget revenues and it does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

#### F) Capital Assets and Depreciation

Capital asset expenditures greater than \$5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	<u>Years</u>
Office equipment	5
Furniture and fixtures	5

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements**

**June 30, 2008**

#### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

##### **G) Investments**

NDCC Section 21-10-07 states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

The pension fund belonging to TFFR and investment trust funds attributable to the Bismarck City Employee Pension Plan, the Bismarck City Police Pension Plan, Fargo City Employee Pension Plan, Job Service of North Dakota, and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

##### **Pooled Investments**

Several agencies whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at \$1.00 per unit.

##### **Investment Valuation and Income Recognition**

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities, including timberland, is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations

# **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## **Notes to Combined Financial Statements**

**June 30, 2008**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **Investment Valuation and Income Recognition – Continued**

consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

#### **Securities Lending**

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

The State Investment Board (SIB) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The SIB has contracted with a third party securities lending agent (Agent) to lend the SIB's securities portfolios. The Agent lends securities of the type on loan at June 30, 2008, for collateral in the form of cash or other securities at 102% of the loaned securities market value plus accrued interest for domestic securities and 105% of the loaned securities market value plus accrued interest for international securities. The collateral for the loans

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements**

**June 30, 2008**

#### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

##### **Securities Lending – Continued**

is maintained at 100% per the contractual requirements. As of June 30, 2008, the market value of the SIB's securities on loan totaled \$192,667,996. As of June 30, 2008, the total amount of cash and non-cash collateral related to these lent securities was \$196,015,966. As of June 30, 2008, the Fund has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceed the amounts the borrowers owe the SIB.

The Average Duration of the collateral investments as of June 30, 2008, was 6 days. The Average Weighted Maturity of collateral investments as of June 30, 2008, was 174 days. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the SIB or the borrower. All term securities loans can be terminated with five days notice by either the SIB or the borrower. Cash collateral is invested in accordance with investment guidelines approved by the SIB. The SIB cannot pledge or sell collateral securities received unless the borrower defaults.

##### **Derivative Securities**

SIB's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. SIB's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.



# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### H) Accumulated Leave

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to \$94,499 at June 30, 2008. The current portion of accrued leave amounted to \$71,335 at June 30, 2008, and is included in accrued expenses of the Fiduciary Funds in the statements of net assets. Changes in accrued leave for the year ended June 30, 2008 consisted of the following:

Balance July 1, 2007	\$92,753
Additions	75,884
Deductions	(74,138)
Balance June 30, 2008	<u>\$94,499</u>

### NOTE 2 CASH AND CASH EQUIVALENTS

#### Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "[a]ll state funds...must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

#### Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2008 were deposited in the Bank of North Dakota. At June 30, 2008, the carrying amount of TFFR's deposits was \$11,040,507 and the bank balance was \$11,071,043. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

#### Investment Trust Funds

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of \$160,562,842 at June 30, 2008. In addition these funds carry cash and cash equivalents totaling \$73,357 at June 30, 2008. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 3 INVESTMENTS

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for funds under its supervision. The “prudent investor rule” means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers’ fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds’ investment goals and objectives.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2008 the following table shows the investments by investment type and maturity (expressed in thousands).

	Total Market Value	Less than 1 Year	1-6 Years	6-10 Years	10+ Years
Asset Backed Securities	\$ 41,040	\$ -	\$ 918	\$ 1,403	\$ 38,719
Bank Loans	22,887	1,450	16,905	4,532	-
Commercial Mortgage-Backed	21,281	-	135	-	21,146
Commercial Paper	-	-	-	-	-
Corporate Bonds	664,627	12,294	203,956	241,048	207,329
Corporate Convertible Bonds	31,661	607	13,035	-	18,019
Government Agencies	61,575	5,005	25,845	15,868	14,857
Government Bonds	148,374	6,024	77,771	34,407	30,172
Government Mortgage-Backed	88,617	2	824	1,561	86,230
Hedge Multi-Strategy	83,441	83,441	-	-	-
Index Linked Government Bonds	126,720	-	36,951	40,889	48,880
Municipal/Provincial Bonds	12,221	-	2,019	5,313	4,889
Non-Government Backed CMOs	64,969	505	164	600	63,700
Short Term Bills and Notes	14,613	14,613	-	-	-
Pooled Investments	503,527	77,591	63,063	362,664	209
Total Debt Securities	<u>\$ 1,885,553</u>	<u>\$ 201,532</u>	<u>\$ 441,586</u>	<u>\$ 708,285</u>	<u>\$ 534,150</u>

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE****Notes to Combined Financial Statements****June 30, 2008****NOTE 3 INVESTMENTS - Continued****Interest Rate Risk – Continued**

In the table above, the market values of inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions, which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at \$1.1 million, and POs valued at \$1.2 million at fiscal year end. The SIB has no policy regarding IO or PO strips.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following table presents the SIB's ratings as of June 30, 2008 (expressed in thousands).

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 3 INVESTMENTS – Continued

#### Credit Risk – Continued

	Total Market Value	Credit Rating*							
		AAA	AA	A	BBB	BB	B	CCC	D
Asset Backed Securities	\$ 41,040	\$ 11,356	\$ 2,038	\$ 558	\$ 3,670	\$ 21,303	\$ 2,011	\$ 62	\$ 42
Bank Loans	22,887	-	-	-	2,059	14,988	5,166	434	240
Commercial Mortgage Backed	21,281	20,498	560	223	-	-	-	-	-
Corporate Bonds	664,627	9,210	38,680	129,861	290,020	98,089	74,130	24,637	-
Corporate Convertible Bonds	31,661	-	-	4,935	6,897	12,357	3,696	3,776	-
Gov't Agencies	43,199	39,191	-	1,302	2,500	206	-	-	-
Gov't Bonds	142,842	106,333	-	25,204	8,209	3,096	-	-	-
Gov't Mortgage Backed	485	485	-	-	-	-	-	-	-
Hedge Multi-Strategy	83,441	-	83,441	-	-	-	-	-	-
Index Linked Gov't Bonds	123,153	123,153	-	-	-	-	-	-	-
Municipal/Provincial Bonds	12,221	4,747	2,259	-	3,521	1,694	-	-	-
Non-Gov't Backed CMOs	64,969	44,144	12,121	7,354	570	641	139	-	-
Pooled Investments	503,527	243,253	111,367	77,711	58,860	12,166	170	-	-
Total Credit Risk of Debt Securities	1,755,333	\$602,370	\$250,466	\$247,148	\$376,306	\$164,540	\$85,312	\$28,909	\$282
US Gov't & Agencies	130,220								
Total Debt Securities	<u>\$1,885,553</u>								

\* Majority of debt securities rated by S&P, however, some were determined by Moody's, Fitch or the manager.

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following table as of June 30, 2008 (expressed in thousands).

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 3 INVESTMENTS – Continued

#### Foreign Currency Risk - Continued

Currency	Short-Term	Debt	Equity	Total
Australian dollar	\$ (6,327)	\$ 10,547	\$ 15,621	\$ 19,841
Brazilian real	3	7,162	4,420	11,585
British pound sterling	(35,289)	6,070	60,486	31,267
Canadian dollar	(19,451)	4,209	22,028	6,786
Colombian peso	-	-	-	-
Danish krone	(1,221)	-	3,431	2,210
Euro	(58,596)	3,382	122,535	67,321
Hong Kong dollar	(1,326)	-	5,594	4,268
Hungarian forint	(180)	222	-	42
Iceland krona	-	3,411	-	3,411
Indonesian Rupiah	21	4,094	30	4,145
Japanese yen	(50,151)	-	96,105	45,954
Malaysian Ringgit	-	7,221	-	7,221
Mexican peso	(162)	8,569	61	8,468
New Zealand dollar	(134)	4,038	-	3,904
Norwegian krone	(1,319)	1,255	6,027	5,963
Polish zloty	(395)	5,897	83	5,585
Singapore dollar	(1,077)	9,960	3,477	12,360
South African rand	(35)	3,598	175	3,738
South Korean won	-	936	308	1,244
Swedish krona	(3,266)	4,768	6,868	8,370
Swiss franc	(20,006)	-	35,445	15,439
Thai baht	-	-	-	-
Turkish lira	1,565	-	-	1,565
International commingled funds (various currencies)	-	94,880	360,310	455,190
Total international investment securities	<u>\$ (197,346)</u>	<u>\$ 180,219</u>	<u>\$ 743,004</u>	<u>\$ 725,877</u>

## NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

### Notes to Combined Financial Statements

June 30, 2008

#### NOTE 3 INVESTMENTS – Continued

##### Alternative Investments

In relation to investment asset allocation within the pension pool, the State Investment Board (SIB) considers alternative investments to be any investments that do not fit into any of the other specific asset classes available for investment. Examples of investments the SIB has included in the alternative investments asset class are private equity, venture capital and distressed debt. All of the investments in this asset class are in the form of limited partnerships with specific time horizons and capital commitments.

**Private Equity** — Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Private Equity portfolios generally have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies.

**Venture Capital** — these include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

**Distressed Debt** — these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans.

The AICPA expands the definition of Alternative Investments for the purpose of performing audits. The expanded definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or Nasdaq). These types of investments can be held within any of the asset classes used by the SIB based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 3 INVESTMENTS – Continued

#### Alternative Investments - Continued

**Commingled/Mutual Funds** — These types of funds are generally open-ended funds and may be utilized in equities or fixed income asset classes. They are funds made up of underlying securities that have readily available market values (publically traded stocks or bonds). The SIB owns units of these funds rather than the individual securities. Contributions or withdrawals from these funds can be done as needed.

**Private Equity** — See definition above. The SIB has determined that private equity investments add diversification opportunities within asset classes that traditionally hold public equity investments. Therefore, there are private equity investments within equity asset classes as well as the alternative investments asset class.

**Distressed Debt** — See definition above. The SIB has determined that certain distressed debt investments add diversification and return opportunities within traditional fixed income asset classes. Therefore, there are distressed debt investments within fixed income asset classes as well as the alternative investments asset class.

**Mezzanine Debt** — This strategy is a hybrid of debt and equity financing. It is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to senior debt. The SIB utilizes this strategy, through a limited partnership structure, in its high yield bond allocation.

**Equity Long/Short** — This strategy is a combination of long and short positions, primarily in publicly traded equities. The SIB utilizes this strategy in its US equity allocations.

**Portable Alpha Strategies** — This strategy separates alpha from beta in a portfolio by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This strategy involves investing in areas that have little to no correlation with the beta of the portfolio. The SIB utilizes this strategy in its US equity and fixed income allocations.

**Real Estate and Real “Tangible” Assets** — These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments are generally structured as limited partnerships or limited liability companies. Investments in Real Estate and Real Assets include:

**Real Estate** — includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include “value added” strategies, which derive their return from both income and appreciation,

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 3 INVESTMENTS – Continued

#### Alternative Investments - Continued

“opportunistic”, which derive their return primarily through appreciation, and “alternative” which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated asset class for these types of investments.

**Timberland** — includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the “higher and better use” value of the underlying land. The SIB has analyzed this type of investment and determined that its risk and return profile is very similar to bonds. Therefore, they have chosen to include timberland in fixed income asset allocations to provide additional diversification and return options.

**Infrastructure** — includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. Similar to timberland, the SIB has included these types of investments in fixed income asset allocations.

### NOTE 4 SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at June 30, 2008 (expressed in thousands).

	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
<b>Securities Lent</b>			
Lent for cash collateral:			
US agency securities	\$ -	\$ -	\$ -
US government securities	171,586	-	171,724
US corporate fixed income securities	3,503	-	3,593
Global government fixed income securities	-	-	-
US equities	5,900	-	6,336
Global equities	11,679	-	12,237
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	2,126	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
<b>Total</b>	<b>\$ 192,668</b>	<b>\$ 2,126</b>	<b>\$ 193,890</b>



# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 5 CAPITAL ASSETS

	<u>7/1/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/2008</u>
Office equipment	\$ 27,996	\$ 11,441	\$ (5,526)	\$ 33,911
Software	1,213,500	-	-	1,213,500
Less accumulated depreciation	(452,115)	(244,833)	5,526	(691,422)
	<u>\$ 789,381</u>			<u>\$ 555,989</u>

### NOTE 6 STATE AGENCY TRANSACTIONS

#### Due To / Due From Other State Agencies

Amounts due to and due from other state agencies are as follows as of June 30, 2008:

#### Due To:

Information Technology Department	\$ 6,254
Attorney General's Office	663
Secretary of State	10
Office of Management and Budget	<u>103</u>
Total due to other state agencies	<u>\$ 7,030</u>

#### Due From:

Bank of North Dakota	<u>\$ 47</u>
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These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

### NOTE 7 OPERATING LEASES

RIO leases office space under an operating lease, which expires on June 30, 2009. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled \$73,871 for fiscal 2008. RIO entered into a two-year lease for office space effective July 1, 2007. Minimum payments under this lease for fiscal 2009 are \$72,397.

### NOTE 8 CAPITAL LEASES

RIO was obligated under a lease accounted for as a capital lease in its pension trust fund. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense. This lease was paid off in fiscal year 2008.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 9 CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the year ended June 30, 2008 is summarized as follows:

	Beginning Balance 7/1/2007	Additions	Reductions	Ending Balance 6/30/2008	Amounts Due Within One Year
Capital Leases Payable	\$ 1,210	\$ -	\$ (1,210)	\$ -	\$ -
Accrued Annual Leave	92,753	75,884	(74,138)	94,499	71,335
	<u>\$ 93,963</u>	<u>\$ 75,884</u>	<u>\$ (75,348)</u>	<u>\$ 94,499</u>	<u>\$ 71,335</u>

The Pension Trust Fund generally liquidates the capital lease. Pension and Investment Trust Funds liquidate the accrued annual leave.

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

#### General

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, survivor and disability benefits. The costs to administer the TFFR plan are financed out of TFFR assets.

#### Membership

As of June 30, 2008 and 2007, the number of participating employer units was 235 and 244 consisting of the following:

	<u>2008</u>	<u>2007</u>
Public School Districts	188	196
County Superintendents	12	13
Special Education Units	19	18
Vocational Education Units	3	3
Other	<u>13</u>	<u>14</u>
Total	<u>235</u>	<u>244</u>

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued

#### Membership - Continued

TFFR's membership consisted of the following:

	<u>2008</u>	<u>2007</u>
Retirees and beneficiaries currently receiving benefits	6,317	6,077
Terminated employees - vested	1,459	1,439
Terminated employees - nonvested	<u>229</u>	<u>142</u>
Total	<u>8,005</u>	<u>7,658</u>
Current employees:		
Vested	8,262	8,355
Nonvested	<u>1,299</u>	<u>1,244</u>
Total	<u>9,561</u>	<u>9,599</u>

#### Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity, and cash). The overall long-term investment objective for TFFR is to match or exceed an expected rate of return of 8.93%, but at a minimum is not less than the 8% actuarially assumed rate of return required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

#### Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the year ended June 30, 2008, TFFR had net realized gains of \$37,457,768.

#### Investment Expenses

Investment expenses consist of fees charged by RIO for investment managers and investment-related service fees from The Northern Trust Company, the Bank of North Dakota, and certain other investment advisors. All TFFR expenses are paid out of TFFR assets.

#### Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 7.75% (8.25% effective July 1, 2008, until the fund reaches 90% funded ratio on actuarial basis) of the Teachers' salary.

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements**

**June 30, 2008**

#### **NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued**

##### **Member and Employer Contributions - Continued**

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

##### **Pension Benefits**

Effective July 1, 2008, for purposes of determining pension benefits, members are classified as those with service credit on file as of July 1, 2008, (Tier 1), and those newly employed and returning refunded members on or after July 1, 2008, (Tier 2).

##### ***Tier 1***

A Tier 1 member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas. All members may be eligible for legislative increases in monthly benefits.

##### ***Tier 2 (Effective July 1, 2008)***

A Tier 2 member is entitled to receive full benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 90. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued

#### Pension Benefits - Continued

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas. Members may be eligible for legislative increases in monthly benefits.

#### Survivor and Disability Benefits

Survivor benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

#### Funded Status and Funding Progress

The funded status of the Defined Benefit Plan as of the most recent actuarial valuation date is as follows (in millions):

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
2008	\$1,909.5	\$2,330.6	\$421.1	81.9%	\$417.7	100.8%

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements

June 30, 2008

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued

#### Funded Status and Funding Progress - Continued

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear funding trend information as obtained from TFFR's independent actuary's annual valuation report.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	July 1, 2008
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll
Amortization Period for GASB 25 ARC (**):	30-year open period
Asset Valuation Method:	5 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return (*)	8.00%
Projected Salary Increases (*)	4.50% to 14.00%
Cost-of-Living Adjustments	None

(\*) Includes inflation at 3.00%

(\*\*) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, or (b) the 8.25% statutory employer contribution rate. Payroll is assumed to increase at 2.00% per annum.

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements**

**June 30, 2008**

#### **NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued**

##### **Funded Status and Funding Progress - Continued**

The following updated actuarial assumptions were adopted by the TFFR board.

Updated actuarial assumptions effective July 1, 2005, consisted of the following:

1. The 1994 Uninsured Pensioner Mortality Table set back three years for males and two years for females.
2. Rates of retirement assumptions for members eligible to retire modified.
3. Changed termination rates to 80% of withdrawal rates based on age and service, for causes other than death, disability, or retirement.
4. For salary rate increases, assumptions are an inflation rate of 3.00% plus productivity increase rate of 1.50%, plus step-rate/promotional increase as modified.
5. Payroll growth rate of 2.00%, with an assumption that does not include any allowance for future increase in the number of members.

Benefit change for new hires employed after July 1, 2008, made at July 1, 2007:

1. Members who join TFFR on or after July 1, 2008, called Tier 2 members, will be subject to the following benefit provisions:
  - Vesting will require five years of service, not three years
  - Unreduced retirement will be available when the member's age plus years of service is at least 90, not 85
  - Unreduced retirement at age 65 will require five years of service, not three years
  - Reduced retirement at age 55 will require five years of service, not three years
  - The member's Final Average Compensation will be defined as a five-year average, not a three-year average

Change in definition of the Annual Required Contribution:

The GASB Annual Required Contribution (ARC) for this plan is defined to be the greater of the 8.25% statutory contribution rate or the sum of (a) the employer normal cost, and (b) the amount needed to amortize the Unfunded Actuarial Accrued Liability as a level percentage of payroll over 30 years. For fiscal year 2005 and prior years, the ARC was defined using a 20-year amortization with a level percentage of payroll.

#### **NOTE 11 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

Permanent employees of RIO participate in PERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that provides retirement, disability and death benefits to eligible employees and beneficiaries. PERS is administered in accordance with NDCC Chapter 54-52. PERS issues a publicly available financial report

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements**

**June 30, 2008**

#### **NOTE 11 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) - Continued**

that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501 or by calling 1-800-803-7377.

The financial statements of PERS are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of PERS.

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate is 8.12% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2008, 2007, and 2006, were \$73,133, \$68,366, and \$64,818, equal to the required contributions for each year plus a 1% contribution for retiree health benefits.

#### **NOTE 12 RELATED PARTIES**

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

#### **NOTE 13 COMMITMENTS**

The State Investment Board has at June 30, 2008, committed to fund certain alternative private equity partnerships for an amount of \$971.2 million. Funding of \$636.8 million has been provided, leaving an unfunded commitment of \$334.4 million.

#### **NOTE 14 NEW PRONOUNCEMENTS**

GASB Statement No. 50, "*Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*", was issued in May 2007, and implemented for the fiscal year beginning July 1, 2007. This statement modifies the financial reporting requirements for pensions and enhances information disclosed in the notes to the financial statements or presented as required supplementary information.

#### **NOTE 15 SUBSEQUENT EVENTS**

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, SIB managed (which includes TFFR Plan assets) investments have likely incurred a significant decline in fair value since June 30, 2008.



# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Required Supplementary Information

June 30, 2008

### Schedule of Funding Progress North Dakota Teachers' Fund for Retirement (Dollars in Millions)

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
2003	\$1,438.4	\$1,690.3	\$251.9	85.1%	\$367.9	68.5%
2004	1,445.6	1,800.4	354.8	80.3	376.5	94.2
2005	1,469.7	1,965.2	495.5	74.8	386.6	128.2
2006	1,564.0	2,073.9	509.9	75.4	390.1	130.7
2007	1,750.1	2,209.3	459.2	79.2	401.3	114.4
2008	1,909.5	2,330.6	421.1	81.9	417.7	100.8

### Schedule of Employer Contributions North Dakota Teachers' Fund for Retirement

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2003	\$ 28,850,725	100.0%
2004	34,186,080	86.7%
2005	44,471,740	68.3%
2006	48,747,189	63.9%
2007	50,532,462	63.1%
2008	44,114,585	76.4%

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**  
**Combining Statement of Net Assets – Investment Trust Funds**  
**Fiduciary Funds**  
**As of June 30, 2008**  
**(With Comparative Totals for 2007)**

	Pension Pool Participants					Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
<b>Assets:</b>										
Investments										
Equities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity pool	934,134,393	20,683,404	10,631,455	33,461,205	15,817,138	252,005,517	8,481,055	838,324	2,820,710	1,151,103
Fixed income	-	-	-	-	-	-	-	-	-	-
Fixed income pool	644,103,751	23,097,878	9,277,106	56,211,468	10,444,283	906,858,202	14,445,705	1,415,135	4,348,404	1,457,427
Real estate pool	121,924,794	5,375,053	2,232,500	-	1,595,296	83,402,474	-	-	-	-
Alternative Investments	99,234,751	303,817	734,527	-	1,684,654	-	-	-	-	-
Cash and cash pool	9,799,104	177,709	97,628	105,055	122,633	8,442,930	2,656,655	263,002	1,326,385	1,471,935
<b>Total investments</b>	<b>1,809,196,793</b>	<b>49,637,861</b>	<b>22,973,216</b>	<b>89,777,728</b>	<b>29,664,004</b>	<b>1,250,709,123</b>	<b>25,583,415</b>	<b>2,516,461</b>	<b>8,495,499</b>	<b>4,080,465</b>
Invested sec lending collateral	29,156,196	917,267	378,078	2,781,230	477,898	136,798,103	821,154	81,315	250,026	84,775
Investment income receivable	3,833,432	82,703	44,180	230,971	(6,444)	8,442,876	116,214	28,561	57,934	6,961
Operating Cash	31,831	-	-	-	-	45,423	602	452	445	136
Miscellaneous receivable	2,765	-	-	-	-	1,963	40	4	14	6
Due from other state agency	5	-	-	-	-	4	-	-	-	-
<b>Total assets</b>	<b>1,842,221,022</b>	<b>50,637,831</b>	<b>23,395,474</b>	<b>92,789,929</b>	<b>30,135,458</b>	<b>1,395,997,492</b>	<b>26,521,425</b>	<b>2,626,793</b>	<b>8,803,918</b>	<b>4,172,343</b>
<b>Liabilities:</b>										
Investment expenses payable	2,276,912	66,462	30,269	91,934	36,681	1,481,102	39,241	3,903	12,375	4,363
Securities lending collateral	29,156,196	917,267	378,078	2,781,230	477,898	136,798,103	821,154	81,315	250,026	84,775
Accounts payable	11,815	-	-	-	-	8,388	170	16	59	27
Accrued expenses	19,647	-	-	-	-	14,147	293	30	105	30
Miscellaneous payable	-	1,370	636	2,509	829	-	-	-	-	-
Due to other state agencies	395	-	-	-	-	280	6	1	2	1
<b>Total liabilities</b>	<b>31,464,965</b>	<b>985,099</b>	<b>408,983</b>	<b>2,875,673</b>	<b>515,408</b>	<b>138,302,020</b>	<b>860,864</b>	<b>85,265</b>	<b>262,567</b>	<b>89,196</b>
<b>Net assets held in trust for external investment pool participants</b>	<b>\$ 1,810,756,057</b>	<b>\$ 49,652,732</b>	<b>\$ 22,986,491</b>	<b>\$ 89,914,256</b>	<b>\$ 29,620,050</b>	<b>\$ 1,257,695,472</b>	<b>\$ 25,660,561</b>	<b>\$ 2,541,528</b>	<b>\$ 8,541,351</b>	<b>\$ 4,083,147</b>
Each participant unit is valued at \$1.00										
Participant units outstanding	1,810,756,057	49,652,732	22,986,491	89,914,256	29,620,050	1,257,695,472	25,660,561	2,541,528	8,541,351	4,083,147

Insurance Pool Participants										Individual Investment Acct.	Totals	
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	2008	2007
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,968,232	\$ 25,968,232	\$ 29,149,500
-	142,303	1,018,171	1,054,641	594,408	345,037	-	-	225,663	7,710,677	-	1,291,115,204	1,501,115,243
-	-	-	-	-	-	-	-	-	-	13,658,848	13,658,848	15,383,953
-	104,429	2,351,498	1,907,002	470,681	416,865	-	151,887,600	533,063	8,207,326	-	1,837,537,823	1,707,756,245
-	13,979	-	-	-	-	-	-	-	-	-	214,544,096	205,201,801
-	-	-	-	-	-	-	-	-	-	-	101,957,749	85,898,100
2,284,976	8,447	185,642	94,366	58,779	41,265	4,391,120	45,986,033	41,024	168,054	-	77,722,742	68,344,985
2,284,976	269,158	3,555,311	3,056,009	1,123,868	803,167	4,391,120	197,873,633	799,750	16,086,057	39,627,080	3,562,504,694	3,612,849,827
-	6,303	131,410	105,814	28,528	24,053	-	-	29,659	469,259	-	172,541,068	441,048,728
-	35	47,430	5,654	880	509	-	998,889	988	7,437	379,616	14,278,826	15,301,708
280	152	195	389	-	-	-	350	-	-	-	80,255	81,972
3	-	6	6	-	-	-	295	-	-	-	5,102	4,011
-	-	-	-	-	-	-	-	-	-	-	9	23
2,285,259	275,648	3,734,352	3,167,872	1,153,276	827,729	4,391,120	198,873,167	830,397	16,562,753	40,006,696	3,749,409,954	4,069,286,269
-	354	5,483	4,648	1,672	1,231	-	32,950	1,346	22,507	25,282	4,138,715	4,109,302
-	6,303	131,410	105,814	28,528	24,053	-	-	29,659	469,259	-	172,541,068	441,048,728
15	2	23	26	-	-	-	1,263	-	-	-	21,804	16,676
130	3	42	45	-	-	-	1,642	-	-	-	36,114	36,231
-	-	-	-	250	250	250	-	250	447	1,105	7,896	6,341
-	-	1	1	-	-	-	42	-	-	-	729	1,258
145	6,662	136,959	110,534	30,450	25,534	250	35,897	31,255	492,213	26,387	176,746,326	445,218,536
\$ 2,285,114	\$ 268,986	\$ 3,597,393	\$ 3,057,338	\$ 1,122,826	\$ 802,195	\$ 4,390,870	\$ 198,837,270	\$ 799,142	\$ 16,070,540	\$ 39,980,309	\$ 3,572,663,628	\$ 3,624,067,733
2,285,114	268,986	3,597,393	3,057,338	1,122,826	802,195	4,390,870	198,837,270	799,142	16,070,540	39,980,309	3,572,663,628	3,624,067,733

The accompanying notes are an integral part of this financial statement.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**  
Combining Statement of Changes in Net Assets – Investment Trust Funds  
Fiduciary Funds  
For the Year Ended June 30, 2008  
(With Comparative Totals for 2007)

	Pension Pool Participants					Insurance Pool Participants					
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Health Care Trust Fund
Additions:											
Investment income:											
Net change in fair value of investments	\$ (133,303,450)	\$ (2,969,501)	\$ (1,541,978)	\$ (2,847,451)	\$ (2,060,774)	\$ (38,116,867)	\$ (1,888,307)	\$ (199,930)	\$ (700,200)	\$ (162,849)	\$ -
Interest, dividends and other income	43,867,012	1,396,664	610,805	2,133,511	357,768	50,628,924	1,011,901	100,393	356,171	122,260	76,044
	(89,436,438)	(1,572,837)	(931,173)	(713,940)	(1,703,006)	12,512,057	(876,406)	(99,537)	(344,029)	(40,589)	76,044
Less investment expenses	11,257,255	330,632	147,621	622,355	138,325	4,439,530	86,491	8,570	28,760	8,294	-
Net investment income	(100,693,693)	(1,903,469)	(1,078,794)	(1,336,295)	(1,841,331)	8,072,527	(962,897)	(108,107)	(372,789)	(48,883)	76,044
Securities lending activity:											
Securities lending income	3,485,257	104,911	45,443	284,811	14,215	7,884,760	87,976	8,462	28,897	8,075	-
Less Securities lending expenses	3,123,166	94,265	40,768	258,635	10,574	7,101,126	79,170	7,594	25,948	7,279	-
Net securities lending income	362,091	10,646	4,675	26,176	3,641	783,634	8,806	868	2,949	796	-
Total Additions	(100,331,602)	(1,892,823)	(1,074,119)	(1,310,119)	(1,837,690)	8,856,161	(954,091)	(107,239)	(369,840)	(48,087)	76,044
Deductions:											
Administrative Expenses	190,508	-	-	-	-	118,294	2,398	993	981	994	979
Net change in net assets resulting from operations	(100,522,110)	(1,892,823)	(1,074,119)	(1,310,119)	(1,837,690)	8,737,867	(956,489)	(108,232)	(370,821)	(49,081)	75,065
Unit transactions at net asset value of \$1 per unit:											
Purchase of units	3,208,999	-	-	-	31,807,740	4,000,000	9,500,000	-	-	3,500,000	-
Redemption of units	(26,165,000)	-	-	(3,473,103)	(350,000)	(55,000,000)	(11,350,000)	(80,000)	(1,110,000)	(3,350,000)	-
Net change in net assets and units resulting from unit transactions	(22,956,001)	-	-	(3,473,103)	31,457,740	(51,000,000)	(1,850,000)	(80,000)	(1,110,000)	150,000	-
Total change in net assets	(123,478,111)	(1,892,823)	(1,074,119)	(4,783,222)	29,620,050	(42,262,133)	(2,806,489)	(188,232)	(1,480,821)	100,919	75,065
Net assets:											
Beginning of year	1,934,234,168	51,545,555	24,060,610	94,697,478	-	1,299,957,605	28,467,050	2,729,760	10,022,172	3,982,228	2,210,049
End of year	\$ 1,810,756,057	\$ 49,652,732	\$ 22,986,491	\$ 89,914,256	\$ 29,620,050	\$ 1,257,695,472	\$ 25,660,561	\$ 2,541,528	\$ 8,541,351	\$ 4,083,147	\$ 2,285,114

Insurance Pool Participants										Individual Investment Acct.	Totals	
Veterans Cemetery	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	2008	2007
\$ -	\$ (29,699)	\$ (231,219)	\$ (305,448)	\$ (127,524)	\$ (75,391)	\$ -	\$ (8,591,387)	\$ (57,118)	\$ (1,474,491)	\$ (7,701,312)	\$ (202,384,896)	\$ 391,832,839
1,479	9,101	144,326	152,814	38,236	29,646	334,983	8,845,339	33,570	492,384	1,338,932	112,082,263	107,039,898
1,479	(20,598)	(86,893)	(152,634)	(89,288)	(45,745)	334,983	253,952	(23,548)	(982,107)	(6,362,380)	(90,302,633)	498,872,737
-	1,132	11,757	12,136	5,148	3,861	1,000	115,864	3,835	54,510	110,942	17,388,018	14,080,766
1,479	(21,730)	(98,650)	(164,770)	(94,436)	(49,606)	333,983	138,088	(27,383)	(1,036,617)	(6,473,322)	(107,690,651)	484,791,971
-	755	12,713	13,970	3,474	2,631	-	-	2,924	40,244	-	12,029,518	24,706,273
-	673	11,476	12,601	3,094	2,356	-	-	2,624	35,649	-	10,816,998	23,953,319
-	82	1,237	1,369	380	275	-	-	300	4,595	-	1,212,520	752,954
1,479	(21,648)	(97,413)	(163,401)	(94,056)	(49,331)	333,983	138,088	(27,083)	(1,032,022)	(6,473,322)	(106,478,131)	485,544,925
46	434	990	989	-	-	-	15,658	-	-	-	333,264	300,296
1,433	(22,082)	(98,403)	(164,390)	(94,056)	(49,331)	333,983	122,430	(27,083)	(1,032,022)	(6,473,322)	(106,811,395)	485,244,629
1,033	16,500	-	-	-	-	157,000,000	100,527,369	-	5,000,000	1,537,000	316,098,641	140,877,109
(124,716)	-	-	(1,000,000)	-	-	(157,000,000)	(1,688,532)	-	-	-	(260,691,351)	(204,776,903)
(123,683)	16,500	-	(1,000,000)	-	-	-	98,838,837	-	5,000,000	1,537,000	55,407,290	(63,899,794)
(122,250)	(5,582)	(98,403)	(1,164,390)	(94,056)	(49,331)	333,983	98,961,267	(27,083)	3,967,978	(4,936,322)	(51,404,105)	421,344,835
122,250	274,568	3,695,796	4,221,728	1,216,882	851,526	4,056,887	99,876,003	826,225	12,102,562	44,916,631	3,624,067,733	3,202,722,898
\$ -	\$ 268,986	\$ 3,597,393	\$ 3,057,338	\$ 1,122,826	\$ 802,195	\$ 4,390,870	\$ 198,837,270	\$ 799,142	\$ 16,070,540	\$ 39,980,309	\$ 3,572,663,628	\$ 3,624,067,733

The accompanying notes are an integral part of this financial statement.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE****Pension and Investment Trust Funds – Schedule of Administrative Expenses**

For the Years Ended June 30, 2008 and 2007

	Pension Trust		Investment Trust	
	2008	2007	2008	2007
Salaries and wages:				
Salaries and wages	\$519,997	\$489,246	\$289,018	268,569
Fringe benefits	168,629	145,156	73,570	66,958
Total salaries and wages	688,626	634,402	362,588	335,527
Operating expenses:				
Information services	66,267	59,907	8,371	9,936
Intergovernmental services	6,226	6,008	2,075	2,003
Professional fees	202,373	203,481	33,821	21,878
Rent of building space	52,026	51,221	21,845	21,327
Lease/rent of office equipment	(413)	(1,290)	797	3,025
Mailing services and postage	40,915	41,700	17,782	16,677
Travel and lodging	31,975	28,582	13,906	12,839
Printing	14,164	26,566	6,506	5,844
Office supplies	3,592	7,608	805	1,407
Professional development	12,635	14,798	10,117	1,065
Outside services	7,594	9,884	2,719	5,686
Small office equipment expense	4,110	12,224	570	3,172
Miscellaneous fees	6,175	2,533	3,187	2,159
Resource and reference materials	591	833	707	946
Service contracts - office equipment	0	112	0	38
IT contractual services	102,791	102,129	585	181
Repairs - office equipment	443	169	133	12
Insurance	1,011	1,064	337	355
Total operating expenses	552,475	567,529	124,263	108,550
Pension trust portion of investment program expenses	153,587	143,782	(153,587)	(143,782)
Depreciation	244,833	246,348	-	-
Total administrative expenses	1,639,521	1,592,061	333,264	300,295
Capital assets	11,441	-	-	-
Capital lease payments - principal	1,210	4,451	-	-
Less - nonappropriated items:				
Professional fees	202,373	203,481	33,821	21,878
Other operating fees paid under continuing appropriation	12,798	13,964	24,156	25,094
Depreciation	244,833	246,348	-	-
Accrual adjustments to employee benefits	3,605	(5,435)	(1,859)	(817)
Total nonappropriated items	463,609	458,358	56,118	46,155
Total appropriated expenditures	\$ 1,188,563	\$ 1,138,154	\$ 277,146	\$ 254,140

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## Schedule of Appropriations – Budget Basis

## Fiduciary Funds

July 1, 2007 to June 30, 2009 Biennium

	Approved 2007-2009 Appropriation	2007-2009 Appropriation Adjustment	Adjusted 2007-2009 Appropriation	Fiscal 2008 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	\$ 2,334,909	\$ 18,228	\$ 2,353,137	\$ 1,049,470	\$ 1,303,667
Operating expenses	935,999	-	935,999	404,798	531,201
Contingency	82,000	-	82,000	11,441	70,559
Total	<u>\$ 3,352,908</u>	<u>\$ 18,228</u>	<u>\$ 3,371,136</u>	<u>\$ 1,465,709</u>	<u>\$ 1,905,427</u>

**NOTE:** Only those expenses for which there are appropriations are included in this statement.

Reconciliation of Administrative Expenses  
to Appropriated Expenditures

	2008
Administrative expenses as reflected in the financial statements	1,972,785
Plus:	
Capital assets	11,441
Capital lease payments - principal	1,210
Less:	
Professional fees	(236,194)
Other operating fees paid under continuing appropriations*	(36,954)
Depreciation expense	(244,833)
Changes in annual leave and FICA payments	(1,746)
Total appropriated expenses	<u>\$1,465,709</u>

\* North Dakota Century Code 21-10-06.2 and 15-39.1-05.2 provide authorization for the continuing appropriation.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE****Pension Trust Fund - Schedule of Investment Expenses****For the Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Investment managers' fees:		
Domestic large cap equity managers	\$ 2,481,980	\$ 2,766,305
Domestic small cap equity managers	1,126,009	1,144,929
International equity managers	1,879,098	1,998,428
Emerging markets equity managers	1,134,320	754,438
Domestic fixed income managers	1,941,477	813,102
High yield fixed income managers	1,355,064	967,072
International fixed income managers	331,436	307,349
Real estate managers	1,983,139	1,815,867
Private equity managers	1,959,890	3,129,870
Cash & equivalents managers	19,900	21,891
Total investment managers' fees	14,212,313	13,719,251
Custodian fees	414,885	375,019
Investment consultant fees	95,218	86,066
Total investment expenses	<u>\$ 14,722,416</u>	<u>\$ 14,180,336</u>
Securities lending fees	<u>\$ 2,558,737</u>	<u>\$ 6,830,921</u>

**Reconciliation of Investment Expenses to Financial Statements**

	<u>2008</u>	<u>2007</u>
Investment expenses as reflected in the financial statements	\$ 11,359,487	\$ 10,547,809
Plus investment management fees included in investment income		
Domestic large cap equity	224,966	-
Domestic small cap equity	326,676	560,592
International equity	130,153	-
Emerging markets equity	452,309	141,833
High Yield	441,884	63,816
Private equity	1,713,230	2,844,395
Cash equivalents	19,900	21,891
Investment expenses per schedule	<u>\$ 14,722,416</u>	<u>\$ 14,180,336</u>



**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE****Pension Trust Fund - Schedule of Consultant Expenses**

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Actuary fees:		
Gabriel, Roeder, Smith & Co.	\$ 132,107	\$ 118,261
Consulting fees:		
Brady Martz & Associates, P.C.	34,519	33,641
Buck Consultants	-	43,000
Enterprise Solutions Inc.	-	480
Miriam Carver-Carver Governance	2,344	-
Total consulting fees:	<u>36,863</u>	<u>77,121</u>
Disability consulting fees:		
Dr. G.M. Lunn	625	275
Legal fees:		
Calhoun Law Group P.C.	634	-
ND Attorney General	32,144	8,304
Total legal fees:	<u>32,778</u>	<u>8,304</u>
Total consultant expenses	<u>\$ 202,373</u>	<u>\$ 203,961</u>

**Reconciliation of Consultant Expenses to Schedule of Administrative Expenses**

	<u>2008</u>	<u>2007</u>
Total professional services on schedule	\$ 202,373	\$ 203,481
Plus IT contractual services from ESI	<u>-</u>	<u>480</u>
Total consultant expenses	<u>\$ 202,373</u>	<u>\$ 203,961</u>

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